# Exhibit E

SEC 10Q

# SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549

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FORM 10-QSB

(Mark One)

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the quarterly period ended September 30, 2000

OR

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the transition period from

to

Commission file number 33-7841

FiberNet Telecom Group, Inc.

(Exact Name of Small Business Issuer as Specified in its Charter)

<TABLE>

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52-2255974

(State or Other Jurisdiction of Incorporation or Organization) </TABLE>

Delaware

(I.R.S. Employer Identification No.)

570 Lexington Avenue, New York, NY 10022 (Address of Principal Executive Offices)

(212) 405-6200 (Issuer's Telephone Number, Including Area Code)

Securities registered under Section 12(b) of the Exchange Act: None Securities registered under Section 12(g) of the Exchange Act: Common Stock, par value \$.001 per share (Title of Class)

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for past 90 days. Yes [X] No []

The number of shares outstanding of the issuer's common stock, as of October 31, 2000, was 32,405,732 shares of Common Stock, \$.001 par value.

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<TABLE> <CAPTION>

<\$> <C> PART I. FINANCIAL INFORMATION Consolidated Financial Statements Item 1. Report of Independent Public Accountants Consolidated Balance Sheets as of September 30, 2000 and December 3 Consolidated Statements of Operations for the nine months ended Sep Consolidated Statements of Operations for the three months ended Se 1999 ..... Consolidated Statements of Cash Flows for the nine months ended Sep 1999 ..... Notes to Consolidated Financial Statements ..... Item 2. Management's Discussion and Analysis of Financial Condition and Res PART II. OTHER INFORMATION ..... </TABLE>

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### PART I

### FINANCIAL INFORMATION

- Item 1. Consolidated Financial Statements
  See attached.
- Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operation

This report contains certain forward-looking statements and information relating to FiberNet Telecom Group, Inc. and its subsidiaries ("FiberNet" or the "Company") that are based on the beliefs of the Company's management, as well as assumptions made by and information currently available to the Company's management. When used herein, words such as "anticipate," "believe," "estimate," "expect," "intend," and similar expressions, as they relate to the Company or the Company's management, identify forward-looking statements. Such statements reflect the current views of the Company with respect to future events and are subject to certain risks, uncertainties and assumptions, relating to the operations and results of operations of the Company, the Company's business strategy, competition and changes in economic cycles, as well as other factors described herein. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results or outcomes may vary materially from those described herein as anticipated, estimated, expected or intended.

## Overview

FiberNet owns and operates fiber-optic networks designed to provide comprehensive transmission services to communications service providers in major metropolitan areas. The Company's technologically advanced, all-optical network architecture enables it to extend a carrier-class communications network from carrier points of presence directly to the offices of end-users in commercial buildings.

FiberNet's networks originate in carrier point facilities, where the Company offers colocation space and interconnects with other carriers to transfer their traffic onto its metropolitan transport networks. Each of the Company's metropolitan transport networks consists of out-of-building lit fiber-optic rings that enable FiberNet to establish connectivity between carrier point facilities and commercial office buildings in the local loop. FiberNet transports its customers' traffic directly to their retail end-users located in multi-tenant class A office buildings where the Company has installed its advanced in-building infrastructure, known as its FiberNet In-Building Networks, or FINs, by interconnecting its metropolitan transport network and its FINs. FiberNet's FINs, consist of fully redundant, self-healing, synchronous optical

network, or SONET, rings. The Company refers to each of the buildings in which it installed a FIN as an on-net building. FiberNet's FINs provide a central distribution system within on-net buildings, extending from the basement of the building to each floor.

FiberNet believes that its metropolitan network solution addresses the need for bandwidth in the metropolitan local loop, where there is insufficient network capacity to meet the growing demand for data-intensive applications. Communications service providers that use the Company's networks are able to access the high-bandwidth capacity necessary to offer broadband data, voice and video services without having to build the infrastructure themselves or use their competitors' networks. In addition, FiberNet's technologically advanced fiber-optic networks and rapid provisioning times allow its customers to deliver their services reliably, quickly and efficiently.

The Company also manages communications access and infrastructure for commercial office properties nationwide. For the owners and managers of these buildings, FiberNet provides the in-building infrastructure necessary to meet the connectivity needs of tenants and controls service providers' access to these off-net buildings.

FiberNet commenced operations in the New York metropolitan area in 1999 and began providing services in January 2000. The Company is currently expanding its operations into Chicago and Los Angeles

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and intends to establish its metropolitan networks in other gateway cities, including San Francisco and Boston.

Results of Operations

Nine Months Ended September 30, 2000 Compared to Nine Months Ended September 30, 1999

Revenues. Revenues for the nine months ended September 30, 2000 were \$6.4 million. The Company generated revenues by providing transport, colocation and communications access management services to its customers. FiberNet recognized \$4.8 million in transport services, \$1.1 million in colocation services and \$0.5 million in communications access management and other services during the period. During this period, three of the Company's customers, 360networks, Network Plus and Qwest, accounted for approximately 87% of its revenues. The Company expects such customer concentration to diminish as it expands its operations. Prior to the nine months ended September 30, 2000, the Company had no commercial operations and did not generate any revenues.

Direct Costs. Direct costs for the nine months ended September 30, 2000 were \$2.9 million in expenses associated with the operation of the Company's networks. These costs included on-net and off-net building license fees, maintenance and repair costs, rent expense at carrier point facilities and onnet and off-net buildings, and related utility costs. For the nine months ended September 30, 1999, the Company did not record any direct costs because it was not offering services during that period.

Selling, General and Administrative Expenses. Selling, general and administrative expenses for the nine months ended September 30, 2000 were \$16.0 million compared to \$4.0 million for the nine months ended September 30, 1999. This increase is consistent with the rapid expansion of the Company's operations. FiberNet has experienced significant growth in personnel costs, marketing and advertising expenses, and network construction overhead to support its business strategy. The number of significant transactions that FiberNet has undertaken this year has also contributed to professional fees, including legal and accounting costs, of \$2.2 million for the nine months ended September 30, 2000, included in selling, general and administrative expenses.

Stock Related Expense. Stock related expense for the nine months ended

September 30, 2000 was \$2.8 million. This non-cash expense relates to the granting of stock options to the Company's employees. FiberNet did not incur any stock related expense for the nine months ended September 30, 1999.

Depreciation and Amortization. Depreciation and amortization expense for the nine months ended September 30, 2000 was \$5.1 million compared to \$0.3 million of depreciation and amortization expense for the nine months ended September 30, 1999. The increase resulted from commencement of the depreciation of network related fixed assets that were placed into service.

Interest Expense, Net. Interest expense, net for the nine months ended September 30, 2000 was \$2.9 million compared to \$3.8 million of interest expense, net for the nine months ended September 30, 1999. Interest expense was generated as a result of borrowings under the Company's senior secured credit facility and its outstanding capital lease obligations. In the nine months ended September 30, 1999, the Company recorded interest expense due to a beneficial conversion feature of \$3.2 million, related to the issuance of convertible notes.

Preferred Stock Dividends. For the nine months ended September 30, 2000, FiberNet paid \$5.5 million and accrued \$3.9 million in non-cash dividends on its series of preferred stock in the form of additional shares of each respective series of preferred stock. The book value of the dividends is based on the closing price per share of the underlying common stock at the end of the period. The liquidation value of all of the dividends paid and accrued is \$1.7 million. All of the series of preferred stock are convertible into shares of the Company's common stock. The Company also recorded a beneficial conversion feature of \$27.6 million upon the issuance of the Series G, H and I Preferred Stock. The Series G Preferred Stock was cancelled upon the issuance of Series H. Each share of Series H and I Preferred Stock is convertible into ten common shares at a price of \$10.00 per common share and \$12.00 per common share, respectively. The amounts of the beneficial conversion feature for the Series G, H and I Preferred Stock are based on the closing price per share on their respective issuance dates of the underlying common stock of \$17.00, \$16.125 and \$14.25, respectively. The Company did not pay or accrue any preferred stock dividends for the nine months ended September 30, 1999.

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Net Loss Applicable to Common Stockholders. The Company reported a net loss applicable to common stockholders of \$60.4 million for the nine months ended September 30, 2000, compared to a loss of \$8.1 million for the nine months ended September 30, 1999. The increase is a result of the aforementioned changes in the Company's operations.

Three Months Ended September 30, 2000 Compared to Three Months Ended September 30, 1999

Revenues. Revenues for the three months ended September 30, 2000 were \$4.6 million. The Company generated revenues by providing transport, colocation and communications access management services to its customers. FiberNet recognized \$3.5 million in transport services, \$0.6 million in colocation services and \$0.5 million in communications access management and other services during the period. During this period, three of the Company's customers, 360networks, Network Plus and Qwest, accounted for approximately 78% of its revenues. The Company expects such customer concentration to diminish as it expands its operations. For the three months ended September 30, 1999, the Company had no commercial operations and did not generate any revenues.

Direct Costs. Direct costs for the three months ended September 30, 2000 were \$2.1 million in expenses associated with the operation of the Company's networks. These costs included on-net and off-net building license fees, maintenance and repair costs, rent expense at carrier point facilities and on-net and off-net buildings, and related utility costs. For the three months ended September 30, 1999, FiberNet did not record any direct costs because it was not offering services during that period.

Selling, General and Administrative Expenses. Selling, general and administrative expenses for the three months ended September 30, 2000 were \$6.2 million compared to \$1.0 million for the three months ended September 30, 1999. This increase is consistent with the rapid expansion of the Company's operations. FiberNet has experienced significant growth in personnel costs, marketing and advertising expenses, and network construction overhead to support its business strategy.

Stock Related Expense. Stock related expense for the three months ended September 30, 2000 was \$0.5 million. This non-cash expense relates to the granting of stock options to the Company's employees. FiberNet did not incur any stock related expense for the three months ended September 30, 1999.

Depreciation and Amortization. Depreciation and amortization expense for the three months ended September 30, 2000 was \$2.7 million compared to \$0.2 million of depreciation and amortization expense for the three months ended September 30, 1999. The increase resulted from commencement of the depreciation of certain network related fixed assets that were placed into service.

Interest Expense, Net. Interest expense, net for the three months ended September 30, 2000 was \$1.6 million compared to \$3.6 million of interest expense, net for the three months ended September 30, 1999. Interest expense was generated as a result of borrowings under the Company's senior secured credit facility, its outstanding capital lease obligations. In the three months ended September 30, 1999, the Company recorded interest expense due to a beneficial conversion feature of \$3.2 million, related to the issuance of convertible notes.

Preferred Stock Dividends. For the three months ended September 30, 2000, FiberNet accrued non-cash dividends on its series of preferred stock of \$3.9 million in the form of additional shares of each respective series of preferred stock. Each series of preferred stock is convertible into shares of the Company's common stock. The liquidation value of the accrued dividends was \$1.0. million. The Company also recorded a beneficial conversion feature of \$13.6 million relating to the issuance of the Series H and I Preferred Stock. Each share of Series H and I Preferred Stock is convertible into ten shares of common stock at a price of \$10.00 per share and \$12.00 per share, respectively. The amounts of the beneficial conversion feature for the Series H and I Preferred Stock are based on the closing price per share on their respective issuance dates of the underlying common stock of \$16.125 and \$14.25, respectively. The Company did not pay or accrue any preferred stock dividends for the three months ended September 30, 1999.

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Net Loss Applicable to Common Stockholders. The Company reported a net loss applicable to common stockholders of \$26.2 million for the three months ended September 30, 2000, compared to a loss of \$4.8 million for the three months ended September 30, 1999. The increase is a result of the aforementioned changes in the Company's operations.

# Liquidity and Capital Resources

As a result of FiberNet's developmental activities and the deployment of its networks and facilities, the Company has incurred significant losses from inception to date. The Company expects such losses to continue, as it further executes its business plan and expands its operations. Consequently, the Company has been dependent upon external sources of capital to fund its operations. Prospectively, the Company will continue to incur losses and will not be able to fund its operations with internally generated funds. Therefore, it will require additional external capital. Additionally, the Company has no relevant operating history upon which an evaluation of its performance and prospects can be made. The Company is subject to unforeseen capital requirements, failure of market acceptance, failure to establish and maintain business relationships, and competitive disadvantages against larger and more established companies.

To date, FiberNet has financed its operations through direct equity investments from its stockholders, the issuance of additional debt and equity securities in private transactions and by arranging a senior secured credit facility with a group of lenders. The Company has incurred an EBITDA loss and a net loss for the nine months ended September 30, 2000 of \$12.6 million and \$60.4 million, respectively, and \$4.0 million and \$8.1 million, respectively, during the nine months ended September 30, 1999. During the nine months ended September 30, 2000, cash used to fund operating activities was \$13.4 million, and cash purchases of property, plant and equipment were \$51.5 million, compared to \$4.9 million and \$6.8 million, respectively, for the nine months ended September 30, 1999.

During the nine months ended September 30, 2000, the Company received \$83.2 million in net cash proceeds from financing activities. The net borrowings under its debt financings were \$31.0 million. The Company received \$3.3 million in cash proceeds from the exercise of outstanding options to purchase shares of common stock and \$50.0 million from the private placement of Series G, H and I Preferred Stock to Nortel. For the nine months ended September 30, 1999, the Company received \$22.0 million in net cash proceeds from equipment financings and the private placement of certain debt and equity securities.

FiberNet's planned operations will require significant additional capital to fund equipment purchases, engineering and construction costs, marketing costs, administrative expenses and other operating activities. The Company anticipates spending \$75 million to \$100 million during the fiscal year 2000 for the deployment of its FINs, expansion of its metropolitan transport networks, the development of additional carrier point facilities and other network programs and management systems.

As a result, the Company will require significant additional financing to complete its networks. FiberNet continues to have on-going discussions with sources of additional financing. On August 15, 2000 The Company filed a registration statement on Form S-1 with the Securities and Exchange Commission for a proposed public offering of common stock. In November 2000, the Company entered into a commitment letter with Deutsche Bank AG, New York Branch, Deutsche Bank Securities Inc., First Union Investors, Inc., First Union Securities, Inc., Toronto Dominion (USA) Securities Inc. and other lenders to replace its existing \$75 credit facility with a senior secured credit facility with a minimum of \$160 million and a maximum of \$175 million of availability. The new credit facility would have a term of six years and consist of multi-draw term loan facility and a revolving loan facility. The closing of the transaction contemplated in the commitment letter is subject to certain conditions, including the consummation of the proposed equity offering.

From time to time, FiberNet may consider additional private or public sales of equity or debt securities and other financings, depending upon market conditions, in order to finance the continued operations of its business. There can be no assurance that the Company will be able to successfully consummate the contemplated financings discussed above or any such financing on acceptable terms, or at all.

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## PART II

# OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 2. Changes in Securities and Use of Proceeds

On July 31, 2000 FiberNet entered into a securities purchase agreement with

Nortel Networks Inc. ("Nortel"), under which the Company issued 426,333 shares of Series H Preferred Stock, \$.001 par value per share, to Nortel for an aggregate purchase price of \$22.5 million plus the cancellation of the 2,000,000 shares of the Series G Preferred Stock, including all accrued and unpaid dividends thereon, previously issued to Nortel. Each share of Series H Preferred Stock is convertible into ten shares of common stock at \$10.00 per share, subject to certain customary anti-dilution adjustments made from time to time pursuant to the certificate of designation of the Series H Preferred Stock. This transaction was a private placement and exempt from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended.

On August 11, 2000 FiberNet entered into a securities purchase agreement with Nortel, under which the Company issued 62,500 shares of Series I Preferred Stock, \$.001 par value per share, to Nortel for an aggregate purchase price of \$7.5 million. Each share of Series I Preferred Stock is convertible into ten shares of common stock at \$12.00 per share, subject to certain customary antidilution adjustments made from time to time pursuant to the certificate of designation of the Series I Preferred Stock. This transaction was a private placement and exempt from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

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None.

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

(a) The following documents are filed herewith as part of this Form 10-Q:

<TABLE> <CAPTION>

Exhibit Name

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27.1 Financial Data Schedule

</TABLE>

(b) The following reports were filed on Form 8-K during the quarter ended September 30, 2000:

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<TABLE> <CAPTION>

Item Number

Description

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A report dated June 30, 2000 regarding the Company's issuance and sale of 2,000,000 shares of its Series G Preferred Stock, \$.001 par value per share to Nortel for an aggregate purchase price of \$20 million. A report dated July 31, 2000 regarding the Company's

2,5,7 A report dated July 31, 2000 regarding the Company's corporate reorganization and acquisition of Devnet

L.L.C. pursuant to an Agreement and Plan of Reorganization dated June 2, 2000 and the Company's issuance of 426,333 shares of its Series H Preferred Stock, \$.001 par value per share to Nortel for an aggregate purchase price of \$22.5 million in cash plus the transfer by Nortel to the Company of 2,000,000 shares of the Company's Series G Preferred Stock. A report dated August 11, 2000 regarding the Company's issuance of 62,500 shares of its Series I Preferred Stock, \$.001 par value per share to Nortel for an aggregate purchase price of \$7.5 million.

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## SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereto duly authorized.

Date: November 9, 2000

FIBERNET TELECOM GROUP, INC.

By: /s/ Jon A. DeLuca

Name: Jon A. DeLuca
Title: Chief Financial Officer
(principal financial and
accounting officer)

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# REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To FiberNet Telecom Group, Inc.:

We have reviewed the accompanying consolidated balance sheet of FiberNet Telecom Group, Inc. (a Delaware corporation) and subsidiaries (the "Company") as of September 30, 2000, and the related consolidated statements of operations for the three-month and nine-month periods ended September 30, 2000 and 1999, and the consolidated statements of cash flows for the nine-month periods ended September 30, 2000 and 1999. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States.

/s/ Arthur Andersen LLP Arthur Andersen LLP

New York, New York October 4, 2000 <PAGE>

# FIBERNET TELECOM GROUP, INC.

# CONSOLIDATED BALANCE SHEETS

(IN 000'S)

<TABLE> <CAPTION> <S>

ASSETS
Current assets: Cash and cash equivalents Accounts receivable, net Prepaid expenses and other
Total current assets  Property, plant and equipment, net  Goodwill and intangibles, net  Deferred charges, net  Other assets
TOTAL ASSETS
LIABILITIES AND STOCKHOLDERS' EQUITY  Current liabilities: Accounts payable
Total current liabilities
Total liabilities
Series D Preferred Stock \$.001 par value, 316,376 and 310,173 shares issued and outstanding, respectively. (Preference in involuntary liquidation value \$15.00 per share)
Series E Preferred Stock \$.001 par value, 305,627 and 293,872 shares issued and outstanding, respectively. (Preference in involuntary liquidation value \$15.00 per share)
Series F Preferred Stock \$.001 par value, 361,731 and 347,819 shares issued and outstanding, respectively. (Preference in involuntary liquidation value \$30.00 per share)
Series H Preferred Stock \$.001 par value, 426,333 shares issued and outstanding (Preference in involuntary liquidation value, \$100.00 per share Series I Preferred Stock \$.001 par value, 62,500 shares issued and outstanding (Preference in involuntary liquidation value, \$120.00 per share Additional paid in capital and other
Total stockholders' equity
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY

|--|

| The accompanying notes are an integral part of these consolidated statements. |
|  |
| FIBERNET TELECOM GROUP, INC. |
| CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED) |
| (IN 000'S) |
|  |
| <\$> |
| Revenues  Operating expenses:  Direct costs |
| Total operating expenses |
| Loss from operations |
| Net loss Preferred stock dividends |
| Net loss applicable to common stockholders |
| Net loss applicable to common stockholders per sharebasic and diluted Weighted average shares outstanding |
| The accompanying notes are an integral part of these consolidated statements. |
|  |
| FIBERNET TELECOM GROUP, INC. |
| CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED) |
| (IN 000'S) |
|  |
|  |
| Revenues Operating expenses: Direct costs |

Depreciation and amortization
Total operating expenses
Loss from operations
Net loss Preferred stock dividends
Net loss applicable to common stockholders
Net loss applicable to common stockholders per sharebasic and diluted Weighted average shares outstanding
The accompanying notes are an integral part of these consolidated statements.
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FIBERNET TELECOM GROUP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(IN 000'S)
<table> <caption></caption></table>
<\$>
Cash flows from operating activities:  Net loss applicable to common stockholders  Adjustments to reconcile net loss to net cash used in operating activities:  Depreciation and amortization  Preferred stock dividends  Stock related expense  Other non-cash expense  Change in assets and liabilities:  (Increase) decrease in accounts receivable, prepaid expenses and other assets  Increase (decrease) in accounts payable, accrued expenses and deferred revenues
Cash used in operating activities Cash flows from investing activities: Acquisition of Devnet L.L.C net of cash received Capital expenditures
Cash used in investing activities Cash flows from financing activities: Net proceeds from debt financings Net proceeds from issuance of equity securities Repayment of capital lease obligation
Cash provided by financing activities
Net increase in cash

Cash at	end	of	perio	od	 	 	 	٠.	 	 ٠.	 	 	 	 	 	 		- •	٠.	 ,
Supplem																				
Inter	est p	baid			 	 	 		 	 	 	 	 	 	 	 	• •			 ,
Incom	ie tax	es	paid	٠.	 	 	 		 	 	 	 	 	 	 	 				 ,
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The accompanying notes are an integral part of these consolidated statements.

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# FIBERNET TELECOM GROUP, INC.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

# 1. BUSINESS OPERATIONS

FiberNet Telecom Group, Inc. ("FiberNet" or the "Company") is an all-optical, facilities-based communications provider focused on providing wholesale broadband connectivity for data, voice and video transmission on its state-of-the-art fiber-optic networks in major metropolitan areas. The Company offers an advanced high bandwidth, fiber-optic solution to support the growing demand for network capacity in the intra-city market, or local loop. The Company has established operations in the New York metropolitan area and has expanded operations into Chicago and Los Angeles. The Company expects to expand into other target markets, including San Francisco and Boston.

FiberNet is a holding company that owns all of the outstanding common stock of FiberNet Operations, Inc., a Delaware corporation, and Devnet L.L.C. ("Devnet"), a Delaware limited liability company. FiberNet Operations, Inc. owns all of the outstanding common stock of FiberNet Telecom, Inc., a Delaware corporation. FiberNet Telecom, Inc. owns all of the outstanding membership interests of Local Fiber, LLC ("Local Fiber"), a New York limited liability company, and all of the outstanding membership interests of FiberNet Equal Access, LLC ("Equal Access"), also a New York limited liability company. The Company conducts its primary business operations through its operating subsidiaries, Devnet, Local Fiber and Equal Access.

The Company was a development stage enterprise through December 31, 1999. During the fiscal quarter ended March 31, 2000, the Company began offering its services to customers and recognizing revenues.

# 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

## Basis of Presentation

The interim unaudited consolidated financial statements in this report have been prepared in accordance with the United States Securities and Exchange Commission's Regulation S-X and consequently do not include all disclosures required under generally accepted accounting principles. The interim unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements of the Company and accompanying notes for the year ended December 31, 1999, contained in the Company's Annual Report on Form 10-KSB. The Form 10-KSB includes information with respect to the Company's significant accounting and financial reporting policies and other pertinent information. The Company believes that all adjustments of a normal recurring nature that are necessary for a fair presentation of the results of the interim periods presented in this report have been made. Certain balances have been reclassified to conform to the current period presentation. All significant intercompany balances and transactions have been eliminated.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition

FiberNet generates revenues from selling network capacity and related services to other communications service providers. The majority of the Company's revenues are generated on a monthly recurring basis under long-

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term contracts, typically three to five years in length. Most of its customers are obligated to make minimum payments for the utilization of its networks and facilities. Customers may elect to purchase additional services in excess of minimum contractual requirements.

Revenues are derived from three general types of services:

- . Transport services. FiberNet's transport services include the offering of broadband circuits on its metropolitan transport networks and in-building networks. Over its metropolitan transport networks, the Company can provision circuits from one of its carrier point facilities to another carrier point facility or to an on-net building via an interconnection with its in-building network in that building. The Company can also provision circuits vertically between floors in a carrier point facility or an on-net building.
- . Colocation facility services. FiberNet's colocation services include providing customers with the ability to locate their communications and networking equipment at its carrier point facilities in a secure technical operating environment. The Company also can provide its customers with colocation services in the central equipment rooms of certain of its onnet buildings. If a customer purchases colocation services, the Company typically requires the customer to make a minimum commitment for transport services, as well.
- . Communications access management services. FiberNet's access management services include providing its customers with the non-exclusive right to market and provide their retail services to tenants in its on-net and offnet buildings. Customers typically enter into an agreement with the Company to gain access to all or a significant number of its properties. For all of its off-net buildings and some of its on-net buildings, the Company has the exclusive right to manage communications access. Once a customer has entered into an agreement with the Company for access services, FiberNet typically requires that customer to utilize its inbuilding network infrastructure for connectivity to end-user tenants.

The Company recognizes revenue on transport services, colocation facility services and communication access management and other services ratably over the term of the contract with each customer.

Impairment of Long-Lived Assets

The Company reviews the carrying value of long-lived assets for impairment whenever events and circumstances indicate the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss would be recognized equal to an amount by which the carrying value exceeds the fair value of the assets.

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### 3. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

<TABLE> <CAPTION>

<S>
<Computer software
Computer equipment
Leasehold improvements
Office equipment and furniture
Construction in progress
Network equipment and infrastructure

Total
Accumulated depreciation

Property, plant and equipment, net

</TABLE>

## 4. ACQUISITIONS

On July 31, 2000, FiberNet acquired the remaining 97% of the membership interests of Devnet not already beneficially owned by the Company pursuant to the Agreement and Plan of Reorganization, dated as of June 2, 2000. Devnet manages the communications access and infrastructure for approximately 40 million square feet of class A commercial real estate in major markets nationwide. In connection with the acquisition, the Company issued 3,461,162 shares of its common stock and paid approximately \$15 million in exchange for approximately 97% of the membership interests in Devnet. The acquisition was accounted for under the purchase method of accounting. FiberNet had previously acquired approximately 3% of the Devnet membership interests for a purchase price of \$3 million in April 2000. The acquisition of the remaining Devnet membership interests gave the Company control of 100% of Devnet. The Company has preliminarily allocated the purchase price of approximately \$60 million to the assets and liabilities of Devnet and will complete the allocation within one year.

The purchase price of Devnet was allocated as follows:

Devnet assets acquired	\$ 2,433
Devnet liabilities assumed	
Goodwill and intangible assets	63,485
Total purchase price	\$59,665

The following pro forma financial information reflects FiberNet's acquisition of Devnet on July 31, 2000. The pro forma statements of operations are intended to demonstrate how the combined companies might have looked if the acquisition of Devnet had been completed on January 1, 1999. On July 31, 2000 FiberNet entered into an employment agreement with a senior executive of Devnet for a one year term. In connection with the acquisition, the Company paid an aggregate of \$500,000 to related parties for financial advisory services.

Pro forma statement of operations for the nine month period ended: <TABLE> <CAPTION>

Septembe

	2000
<\$>	<c></c>
Revenues	\$8
Net loss applicable to common shareholders	\$(66
Net loss applicable to common shareholders per share-basic and diluted	\$ (

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### 5. SIGNIFICANT EVENTS

On August 15, 2000 the Company filed a registration statement on Form S-1 with the Securities and Exchange Commission for a proposed public offering of common stock. In November 2000, the Company entered into a commitment letter with Deutsche Bank AG, New York Branch, Deutsche Bank Securities Inc., First Union Investors, Inc., First Union Securities, Inc., Toronto Dominion (USA) Securities Inc. and other lenders to replace its existing \$75 credit facility with a senior secured credit facility with a minimum of \$160 million and a maximum of \$175 million of availability. The new credit facility would have a term of six years and consist of a multi-draw term loan facility and a revolving loan facility. The closing of the transaction contemplated in the commitment letter is subject to certain conditions, including the consummation of the proposed equity offering. Concurrently with the completion of the proposed equity offering, all of the Company's outstanding shares of preferred stock, including accrued and unpaid dividends thereon as of September 30, 2000, will automatically convert into 14,974,478 shares of common stock.

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Through three transactions, Nortel has invested a total of \$50.0 million in preferred stock of the Company. On August 11, 2000 FiberNet issued and sold 62,500 shares of Series I Preferred Stock to Nortel in a private placement for an aggregate purchase price of \$7.5 million. Each share of Series I Preferred Stock is convertible into ten shares of common stock at \$12.00 per share, subject to anti-dilution adjustments. In connection with this transaction, the Company recorded a non-recurring, non-cash beneficial conversion feature in the amount of \$1.4 million to reflect the market price of the underlying common stock as of the date of issuance.

On July 31, 2000 FiberNet issued and sold 426,333 shares of Series H Preferred Stock to Nortel in a private placement for an aggregate purchase price consisting of \$22.5 million in cash plus the cancellation of the 2,000,000 shares of Series G Preferred Stock, including all accrued and unpaid dividends thereon, previously issued by the Company to Nortel. Each share of Series H Preferred Stock is convertible into ten shares of common stock at \$10.00 per share, subject to anti-dilution adjustments. This amount is reflected in the accompanying balance sheet net of the value of warrants to purchase 425,000 shares of common stock of the Company issued in connection with this transaction. The value of these warrants was estimated on the date of issuance using an acceptable pricing model. In connection with this transaction, the Company recorded a non-recurring, non-cash beneficial conversion feature in the amount of \$12.2 million to reflect the market price of the underlying common stock as of the date of the issuance.

On June 30, 2000, FiberNet issued and sold 2,000,000 shares of Series G Preferred Stock to Nortel in a private placement for an aggregate purchase price of \$20.0 million. Each share of Series G Preferred Stock was convertible into one share of Common Stock of FiberNet at \$10.00 per share, subject to antidilution adjustments. In connection with this transaction, the Company recorded a nonrecurring non-cash charge for a beneficial conversion feature in the amount of \$14.0 million to reflect the market price of the underlying common stock as of the date of the issuance.

On June 22, 2000, the Company amended its master purchase agreement with Nortel to expand the scope of this agreement from \$60.0 million to \$260.0 million and to extend the term of the agreement to 2002. On December 31, 1999, FiberNet entered into this master purchase agreement giving it the right to

purchase optical networking equipment and related services at predetermined volume-based pricing.

On May 26, 2000, FiberNet entered into an amended, expanded agreement with Tishman Speyer Properties, L.P. ("TSP"). Under the agreement, FiberNet will issue up to 1.6 million shares of its Common Stock to TSP as the Company enters into license agreements for the deployment and operation of its in-building networks in certain class A commercial office properties owned or managed by TSP. As of September 30, 2000, approximately 700,000 shares have been issued under the agreement for a total value of \$6.4 million, based on fair market value on the date of issuance. This amount is included in deferred charges on the accompanying balance sheet and is being amortized over 15 years, the term of the underlying license agreement. In a related transaction, TSP exchanged a warrant it held for membership interests in Equal Access, an indirect whollyowned subsidiary of FiberNet. This exchange had no impact on the financial statements of the Company.

<LEGEND>

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE NINE MONTH FINANCIAL STATEMENT AS OF SEPTEMBER 30, 2000 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.
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